News Release

Release date: 11 September 2008

INTERIM RESULTS FOR THE 26 WEEKS ENDED 3 AUGUST 2008

Strong Sales Testament To Morrisons Inherent Value Credentials

Financial summary

- Total turnover up 13.5% to £7.1bn (2007/08*: £6.3bn)
- Profit before tax £309m up 12.8% (2007/08*: £274m)
- Underlying profit before tax up 18.5% to £295m (2007/08*: £249m)
- Cash flow from operations £521m (2007/08: £406m)
- Interim dividend of 0.8 pence per share, an increase of 18.5% (2007: 0.675 pence)

Operating review

- Good progress on Optimisation Plan: all initiatives on track
- Like for like sales (ex fuel) up 7.6%
- Like for like fuel sales up 31.6%
- Customer numbers up by 4.7% in like for like stores - another half a million more customers per week

Outlook

- 8 new stores in H2 and a further 50,000 square feet of extension space
- 2010 Plan target to grow annual like-for-like sales ahead of market overall: momentum of the first half year has set us up well to achieve this for the full year

** Pro forma 26 weeks to 05/08/2007*

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Commenting on the results Sir Ian Gibson, Non-Executive Chairman said:
"This is a solid set of interim results in the toughest trading environment seen for many years. The management team is very focused on delivering great day to day value to our customers as well as the longer term vision of being the Food Specialist for Everyone."

Chief Executive Marc Bolland said:
"To have grown like for like sales by 7.6% in this economic climate is a clear testament to the strength of Morrisons recovery. More shoppers are choosing Morrisons because of our price-crunching deals and our unrivalled fresh offer in store."

-ENDS-

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There will be an analyst presentation at 9:30am on Thursday 11 September 2008 at the offices of the Royal Bank of Scotland, 250 Bishopsgate, London, EC2M 4RB.

The presentation will also be available live via audio webcast at: www.morrisons.co.uk/Corporate/Investors/ and via conference call: International access number: +44 (0)20 3003 2666 and participant pin: 146348.

Overview

This report covers trading for the 26 weeks ended 3 August 2008. Comparable figures for the previous year represent 25 weeks except where otherwise stated.

Total turnover was £7.1bn, up 13.5% (including fuel) on the equivalent 26 week prior period. Like for like turnover excluding fuel was up 7.6% with a further 1.6% contribution from new stores.

Profit before tax was £309m, including £6m of gains from property disposals (2007:£17m). Underlying profit before tax was £295m, compared to £249m in the equivalent prior period, an increase of 18.5%. The operating margin of 4.4% was in line with the prior year, a strong result given the dilutive impact of low margin fuel sales.

Cash flow was again strong in the period, with £521m generated from operations compared with £406m in the prior period. This was after a further £100m injection of funding into the Group's defined benefit pensions schemes. Capital expenditure increased to £238m (2007:£139m) as the momentum of the Group's Optimisation Plan investment programme picked up. As previously announced, the Group began its share buyback programme during the period, purchasing 18.7m shares at a total cost of £50m and an average share price of £2.64. Net debt decreased further to £458m (2007: £566m), reducing the Group's gearing to 10%, a level very significantly below that of most companies of a comparable nature and scale. Our £1.1bn revolving credit facility remains undrawn.

There was no change in the number of stores in the estate during the period, although total store space increased by 57,000 square feet overall following the replacement of our store at Giffnock and the completion of a number of store extensions. We anticipate opening 8 new stores in the second half of the year and completing a further 50,000 square feet of extension space. We remain on track to deliver 1m square feet of new space in the three years covered by our 2010 plan.

Last year the Board announced a new dividend policy, which was to target progressive dividend growth in the coming two years, over and above earnings growth, in order to bring dividend cover to a level in line with the rest of our sector. At this interim stage, the Board is pleased to confirm its intention to increase the dividend by 18.5% to 0.8 pence per share. This will be paid on 10 November 2008 to shareholders on the register on 10 October 2008.

The UK grocery retail market

The consumer environment in the first half of 2008 was the worst for many years, with disposable incomes dropping significantly as a result of the tightening of credit availability and increases in energy, commodity and other household costs. In the grocery market, consumers experienced food price inflation on basic items, although intense competition in the sector ensured that underlying producer cost increases were not passed fully into retail prices.

The extent of input cost pressures can be illustrated very simply through the commodity markets. At 31 July 2008, the market prices of some basic raw materials compared with one year previously were up as follows:

	%
Crude oil	66
Wheat	23
Rice	119
Beef	27
Lamb	32

The crude oil price feeds directly into pump prices, but also indirectly into the costs of packaging, food distribution and energy. Wheat and grain costs impact directly bread and bakery prices and indirectly livestock prices through the cost of animal feeds. The intense cost pressures seen early in 2008 showed some signs of easing later in the period, with oil and wheat down 15% and 39% from their respective highs. Further reductions in other commodities will be required for the inflationary pressure to ease in 2009.

A number of measures of grocery market performance are published, all of which are broadly consistent. One such, from Taylor Nelson Sofres, showed grocery market growth in the first half of 2008 at 6.1%, compared with growth in the equivalent prior year period of 4.7%. Whilst the 2008 performance is in the context of a very difficult economic backdrop and the inflationary pressures described, 2007 also had its difficulties, with very poor summer weather and two bouts of flooding.

The inquiry into the grocery sector undertaken by the Competition Commission reached its conclusion in April, with the publication of its recommendations, which confirmed for the third time in recent years that the sector is highly competitive. We do not anticipate that these recommendations will have any material impact on our business or on the consumer.

Despite the Competition Commission findings, the grocery sector continues to be under a close focus from the Office of Fair Trading, which has issued “Statements of Objection” in relation to conduct in the milk and tobacco categories in the early part of the millennium. We always cooperate fully with such inquiries. In the case of their investigation into milk, we believe strongly that Morrisons has no case to answer and have made representations in detail to this effect. In the case of tobacco, there is a complex legal question as to whether well established industry practices represented a breach of competition law. It is likely that this can only be settled clearly through a formal judicial process.

Trading

Our like for like store sales performance of 7.6% continued the strong momentum we reported last year, and reflected increased customer numbers as well as the widely publicised effects of food price inflation. Once again, we saw good sales growth in all parts of our estate, with Scotland and the South continuing to be particularly strong. Customer numbers were up by 4.7% in like for like stores, and we believe that between 1% and 1.5% of this is accounted for by the effects of providing discount to our staff from November 2007 – a benefit which has been extremely well received.

Like for like fuel sales were up 31.6%, and although this was mainly due to the effects of high oil prices we also grew volumes strongly. This partly reflected recovery from the industry-wide fuel contamination issues of the previous year, but mainly was due to the attractiveness of our pricing compared to the major oil companies.

During the period the slowdown in the economy inevitably led to a strong focus on value. Whilst our premium ranges and fresh food continued to show good growth, we also placed stronger emphasis on our value ranges, which were relaunched, and the promotions for which Morrisons is renowned. A number of hard-hitting deals were offered, including a series of discounts through the Sun newspaper and a basket of everyday fresh products at 50 pence each, a heavy discount to normal retail prices. The latter promotion was well supported by our manufacturing businesses, which were able to deliver significant volume increases at very short notice. This is without doubt a unique advantage enjoyed by Morrisons. The intense price competition and promotional activity in the period meant that not all input cost inflation could be passed on in higher retail prices. However, our strong sales momentum and progress in our various 2010 improvement initiatives allowed us to deliver our profit expectations overall.

Optimisation Plan progress

We continued to make good progress in delivering the goals set out in phase II of our Optimisation Plan – the period to January 2010. A major milestone was the completion, on schedule, of the segmentation of our stores according to their size, demography, ethnicity and competitive environment. Alongside this, the rebranding of all store signage and distribution vehicles was completed as planned.

Product development and innovation continued, with most own brand product now packaged in the new brand logo and colours. We continue to strengthen the team responsible for product development, with the recruitment in the period of a number of highly qualified food technologists and – for the first time in Morrisons – a Master of Wine to oversee development of our range of wines.

As previously announced, we have secured a new distribution centre in the South East, at Sittingbourne, and this purpose-built leasehold site is expected to come on stream by the first half of 2010. It will provide much needed capacity for our growing business and reduce significantly the miles travelled in servicing our London and South East stores.

Towards the end of the period we opened our new abattoir at Spalding in Lincolnshire. This purpose-built facility is now building towards full capacity and will enable us to be self sufficient in the processing of beef, pork and lamb. This investment was key to enabling us to deliver our commitment of only selling fresh meat from British sources.

Our programme to replace legacy IT systems is well underway. Following a competitive process, implementation partners have been selected and a team is now engaged full time on this major activity. The first implementation will be the new payroll and HR system, and this will enter into a pilot phase in the fourth quarter.

Progress towards our CSR objectives has been positive in the period. In June, we gave away 10m re-usable bags to customers, to encourage the re-use of carrier bags. Overall, our carrier bag usage has fallen by 22% year on year, and we will repeat this initiative in November. Our programme of replacing older refrigeration units with more efficient ones continued, and a similar programme is underway to replace all our petrol pumps with more efficient models which “recover” fuel vapour rather than allowing it to leak into the atmosphere. 117 out of our 286 filling stations were completed in the period, and the programme will finish in 2009. We were delighted to be one of only 12 organisations (2 of them retailers) in the UK to qualify for the “Carbon Trust Standard”, which certifies genuine reductions in carbon emissions. Overall, our carbon footprint, as measured in accordance with principles agreed with the Carbon Trust, has improved strongly since 2005, and we are two thirds of the way towards our target of a 36% reduction by 2010.

Our people

Our success is delivered by 118,000 colleagues across the business. We were delighted that they have been recognised for their achievements of the past few years with a number of prestigious industry awards including Grocer of the Year 2008 and Retailer of the Year 2008. The Board is most grateful to all colleagues, whose unstinting efforts are helping to create the Food Specialist for Everyone.

Outlook

In our Optimisation Plan, we have targeted to grow annual like for like sales ahead of the market overall. The momentum of the first half year has set us up well to achieve this for the full year, despite the challenging comparatives as we approach Christmas. The first half profit performance gives us confidence that we will deliver our profit expectations for the year. We fully expect the second half to be highly competitive as disposable incomes come under further pressure, and we will continue to use our sales momentum to fund price investment and maintain a strong competitive position.

Condensed consolidated income statement

26 weeks ended 3 August 2008

	Note	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Turnover	2	**7,105**	6,014	12,969
Cost of sales		**(6,669)**	(5,644)	(12,151)
Gross profit		**436**	370	818
Other operating income		**19**	16	30
Administrative expenses		**(152)**	(139)	(268)
Profits arising on property transactions		**6**	17	32
Operating profit		**309**	264	612
Finance costs	3	**(28)**	(32)	(60)
Finance income	3	**28**	34	60
Profit before taxation		**309**	266	612
Taxation	4	**(91)**	(41)	(58)
Profit for the financial period attributable to equity holders of the parent		**218**	225	554
Earnings per share (pence)	5			
- basic		**8.21**	8.46	20.79
- diluted		**8.09**	8.45	20.67
Ordinary dividend per share (pence)	6			
Interim - proposed		**0.800**		
- paid			0.675	0.675
Final - paid				4.125

Condensed consolidated statement of recognised income and expense

26 weeks ended 3 August 2008

	Note	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Actuarial loss and other movements arising in the pension scheme (net of tax)		**-**	4	(26)
Write off pension asset (net of tax)		**(30)**	-	-
Cash flow hedging movement		**2**	3	7
Deferred tax on share options		**-**	(1)	(2)
Net (expense)/income recognised directly in equity		**(28)**	6	(21)
Profit for the financial period		**218**	225	554
Total recognised income for the financial period attributable to equity holders of the parent	9	**190**	231	533

Condensed consolidated balance sheet

3 August 2008

	Note	3 August 2008 £m	29 July 2007 £m	3 February 2008 £m
Assets				
Non-current assets				
Property, plant and equipment	7	**6,302**	6,108	6,205
Lease prepayments		**239**	227	239
Investment property		**236**	240	239
Financial assets		**49**	21	43
		6,826	6,596	6,726
Current assets				
Stocks		**451**	381	442
Debtors		**191**	161	199
Financial assets		**25**	-	74
Cash and cash equivalents		**339**	655	191
		1,006	1,197	906
Non-current assets classified as held for sale		**4**	4	4
		1,010	1,201	910
Liabilities				
Current liabilities				
Creditors		**(1,903)**	(1,569)	(1,679)
Other financial liabilities		**(96)**	(479)	(77)
Current tax liabilities		**(64)**	(132)	(97)
		(2,063)	(2,180)	(1,853)
Non-current liabilities				
Other financial liabilities		**(775)**	(764)	(774)
Deferred tax liabilities		**(463)**	(450)	(424)
Pension liabilities	8	**-**	(167)	(68)
Provisions		**(118)**	(151)	(139)
		(1,356)	(1,532)	(1,405)
Net assets		**4,417**	4,085	4,378
Shareholders' equity				
Called up share capital		**267**	268	269
Share premium		**60**	53	57
Capital redemption reserve		**2**	-	-
Merger reserve		**2,578**	2,578	2,578
Retained earnings and hedging reserve		**1,510**	1,186	1,474
Total equity attributable to equity holders of the parent	9	**4,417**	4,085	4,378

Condensed consolidated cash flow statement

26 weeks ended 3 August 2008

	Note	3 August 2008 £m	29 July 2007 £m	3 February 2008 £m
Cash flows from operating activities				
Cash generated from operations	10	**521**	406	756
Interest paid		**(16)**	(14)	(70)
Taxation paid		**(67)**	(34)	(107)
Net cash inflow from operating activities		**438**	358	579
Cash flows from investing activities				
Interest received		**19**	19	50
Proceeds from the sale of property, plant and equipment		**17**	40	94
Purchase of property, plant and equipment		**(238)**	(139)	(402)
Net cash outflow from investing activities		**(202)**	(80)	(258)
Cash flows from financing activities				
Proceeds from the issue of ordinary shares		**3**	12	17
Shares repurchased for cancellation		**(50)**	-	-
Finance lease principal repayments		**(1)**	(1)	(3)
Decrease/(Increase) in long term cash on deposit		**49**	-	(74)
Repayment of borrowings		**(1)**	(1)	(266)
Dividends paid to equity shareholders	6	**(110)**	(90)	(108)
Net cash outflow from financing activities		**(110)**	(80)	(434)
Net increase/(decrease) in cash and cash equivalents		**126**	198	(113)
Cash and cash equivalents at start of period		**118**	231	231
Cash and cash equivalents at end of period		**244**	429	118

Reconciliation of net cash flow to movement in net debt in the period

	Note	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Net increase/(decrease) in cash and cash equivalents		**126**	198	(113)
Cash outflow from decrease in debt and lease financing		**2**	2	268
(Decrease)/increase in Long term cash on deposit		**(49)**	-	74
Other non cash movements		**6**	6	-
Opening net debt		**(543)**	(772)	(772)
Closing net debt	11	**(458)**	(566)	(543)

Notes to the condensed financial statements
26 weeks ended 3 August 2008

1 Underlying earnings

The Directors consider that underlying earnings and normalised adjusted earnings per share measures referred to in the Interim management report provide useful information for shareholders on underlying trends and performance. The adjustments are made to reported profit to (a) remove the impact of pension interest income volatility on the income statement; (b) remove profits arising on property transactions since these profits do not form part of the Group's principal activities; and (c) to apply an effective tax rate of 30% (2007/08: 32%), being an estimated normalised tax rate.

	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Profit after tax	**218**	225	554
Add back: tax charge for the year [1]	**91**	41	58
Profit before tax	**309**	266	612
Adjustments for:			
Net pension interest income [1]	**(8)**	(8)	(17)
Profits arising on property transactions [1]	**(6)**	(17)	(32)
Underlying earnings before tax	**295**	241	563
Normalised tax charge at 30%(32%) tax rate [1]	**(88)**	(77)	(180)
Underlying earnings after normalised tax charge	**207**	164	383

1 Adjustments marked [1] equal £11m (29 July 2007: £61m, 3 February 2008: £171m), as shown in reconciliation of earnings disclosed in note 5.

2 Turnover	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Sale of goods in stores	**5,514**	4,863	10,439
Fuel	**1,559**	1,115	2,443
Total store based sales	**7,073**	5,978	12,882
Direct manufacturing sales	**14**	13	27
Income from concessions and commission	**18**	23	60
Total turnover	**7,105**	6,014	12,969

Notes to the condensed financial statements (continued)

26 weeks ended 3 August 2008

3 **Finance costs and income**	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Interest payable on short term loans and bank overdrafts	**(1)**	-	(1)
Interest payable on bonds	**(22)**	(29)	(53)
Interest capitalised	**2**	4	8
Total interest payable	**(21)**	(25)	(46)
Fair value movement of derivative instruments	**(3)**	(3)	(7)
Other finance costs	**(4)**	(4)	(7)
Finance costs	**(28)**	(32)	(60)
Bank interest received	**12**	14	28
Amortisation of bonds	**7**	7	8
Other finance income	**1**	5	7
Pension liability interest cost	**(49)**	(48)	(99)
Expected return on pension assets	**57**	56	116
Net pension interest income	**8**	8	17
Finance income	**28**	34	60
Net finance income	**-**	2	-

4 Taxation

The current corporation tax charge on taxable profits for the period reflects the UK statutory corporation tax rate of 28%. However, the effective current corporation tax rate on profits before tax is lower (22%), which reflects the special cash contributions to the Group's pension schemes. In future, the effective current corporation tax or underlying rate is expected to be higher than 28% due to significant levels of depreciation, which is not deductible for tax purposes.

The prior interim period and year end overall effective tax rates (including deferred tax) were low as a result of the closure of prior-year tax periods following the conclusion of enquiries that were raised by HM Revenue & Customs and a reduction in the UK statutory corporation tax rate from 30% to 28%, which gave rise to significant tax credits.

Notes to the condensed financial statements (continued)
26 weeks ended 3 August 2008

5 Earnings per share

Basic earnings per share are calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, excluding those held by the Group as treasury shares, which are treated as cancelled.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially issuable dilutive ordinary shares.

Adjusted earnings per share and Underlying earnings per share
It is the Directors view that Adjusted earnings per share and Underlying earnings after normalised tax per share is a fairer reflection of the underlying results of the business.

	26 weeks ended 3 August 2008 £m		25 weeks ended 29 July 2007 £m		52 weeks ended 3 February 2008 £m	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Basic earnings						
Earnings attributable to ordinary shareholders	**218**	**218**	225	225	554	554
	£m		£m		£m	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Adjusted earnings						
Earnings attributable to ordinary shareholders	**218**	**218**	225	225	554	554
Profits arising on property transactions*	**(5)**	**(5)**	(12)	(12)	(29)	(29)
Adjusted earnings attributable to ordinary shareholders	**213**	**213**	214	214	525	525
	£m		£m		£m	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Underlying earnings after normalised tax charge						
Earnings attributable to ordinary shareholders	**218**	**218**	225	225	554	554
Adjustments to determine underlying profit (see note 1)	**(11)**	**(11)**	(61)	(61)	(171)	(171)
Underlying earnings attributable to ordinary shareholders	**207**	**207**	164	164	383	383
	Millions		Millions		Millions	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Weighted average number of shares						
Ordinary shares in issue/diluted ordinary shares**	**2,664**	**2,702**	2,661	2,664	2,664	2,680
	Pence		Pence		Pence	
	Basic	Diluted	Basic	Diluted	Basic	Diluted
Basic earnings per share	**8.21**	**8.09**	8.46	8.45	20.79	20.67
Adjusted earnings per share	**8.04**	**7.93**	8.03	8.02	19.70	19.59
Underlying earnings per share	**7.75**	**7.64**	6.16	6.15	14.37	14.29

* Profits arising on property transactions as shown in the income statement after adjusting for the effects of tax.
** The weighted average ordinary shares in issue is adjusted for potentially dilutive shares and share options.

6 Dividends

	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Equity dividends paid in the period	**110**	90	108

The dividend paid in the period represents the cash payment of the final dividend from the 52 weeks ended 3 February 2008.

The Directors are proposing an interim dividend of 0.800p per share which will be paid on 10 November 2008 to shareholders who are on the register of members on 10 October 2008. The interim dividend will absorb an estimated £21m of shareholders' funds. This amount will be charged to retained earnings when paid.

Notes to the condensed financial statements (continued)
26 weeks ended 3 August 2008

7 **Property, plant and equipment**	3 August 2008 £m	29 July 2007 £m	3 February 2008 £m
Net book value			
At beginning of the period	**6,205**	6,117	6,117
Additions at cost	**233**	153	410
Interest capitalised	**2**	4	8
Transfers to/from investment property and long lease land premiums	**-**	-	2
Disposals	**(11)**	(10)	(50)
Depreciation charge for the period and other asset write offs	**(127)**	(156)	(282)
At end of the period	**6,302**	6,108	6,205

In addition to the depreciation charge above of £127m, £3m (29 July 2007:£2m, 3 February 2008:£7m) is charged on Investment properties.
The prior interim period included £17m additional depreciation related to the write down of branded assets, and in the current interim period the depreciation charge has reduced following a review of the economic life of certain assets.

Contracts placed for future capital expenditure not provided in the financial statements amount to £103m (29 July 2007:£100m, 3 February 2008:£102m).

8 Pension liabilities

During the year the second and final injection of £100m funding was made into the defined benefit pension schemes.

IFRIC 14 *IAS19 – The limit on a defined benefit asset, minimum funding requirements and their interaction* only permits the recognition of a pension fund surplus when it can be demonstrated that the Group has access to the surplus, through, either an unconditional right to a refund or a right to reduced future contributions. In light of this requirement, and emerging GAAP in respect of IFRIC 14, the pension surplus of £30m (net of tax) has not been recognised as an asset. This will continue to be monitored in the coming months and the treatment of any surplus existing at the year end will be considered.

Notes to the condensed financial statements (continued)
26 weeks ended 3 August 2008

9 Statement of changes in shareholders' equity	Share capital £m	Share premium £m	Capital redemption reserve £m	Merger reserve £m	Hedging reserve £m	Retained earnings £m	Total £m
Current interim period							
At 3 February 2008	269	57	-	2,578	6	1,468	4,378
Total recognised income and expense	-	-	-	-	2	188	190
Share issues	-	3		-	-	-	3
Shares purchased for cancellation	(2)	-	2	-	-	(50)	(50)
Share option charge	-	-	-	-	-	6	6
Dividends	-	-	-	-	-	(110)	(110)
At 3 August 2008	**267**	**60**	**2**	**2,578**	**8**	**1,502**	**4,417**
Prior interim period							
At 4 February 2007	268	41	-	2,578	(1)	1,041	3,927
Total recognised income and expense	-	-	-	-	3	228	231
Share issues	-	12	-	-	-	-	12
Share option charge	-	-	-	-	-	5	5
Dividends	-	-	-	-	-	(90)	(90)
At 29 July 2007	268	53	-	2,578	2	1,184	4,085
Prior year							
At 4 February 2007	268	41	-	2,578	(1)	1,041	3,927
Total recognised income and expense	-	-	-	-	7	526	533
Share issues	1	16	-	-	-	-	17
Share option charge	-	-	-	-	-	9	9
Dividends	-	-	-	-	-	(108)	(108)
At 3 February 2008	269	57	-	2,578	6	1,468	4,378

Share buyback
The company purchased 18,740,000 of its own ordinary shares in the open market for cancellation between 31 March 2008 and 1 August 2008 at a cost of £50m. The shares purchased represent 0.7% of the ordinary share capital at 3 August 2008.

Notes to the condensed financial statements (continued)

26 weeks ended 3 August 2008

10 Cash flows from operating activities	26 weeks ended 3 August 2008 £m	25 weeks ended 29 July 2007 £m	52 weeks ended 3 February 2008 £m
Profit for the period	**218**	225	554
Adjustments for:			
Taxation	**91**	41	58
Depreciation and amortisation	**130**	158	289
Profits arising on property transactions	**(6)**	(17)	(32)
Net finance income	**-**	(2)	-
Other non-cash changes	**6**	4	6
Excess of contributions over pension service cost	**(107)**	(23)	(148)
Increase in stocks	**(9)**	(13)	(74)
Decrease/(increase) in debtors	**7**	(10)	(60)
Increase in creditors	**212**	40	169
(Decrease)/increase in provisions	**(21)**	3	(6)
Cash generated from operations	**521**	406	756

11 Analysis of net debt	3 August 2008 £m	29 July 2007 £m	3 February 2008 £m
Cash and cash equivalents	**339**	655	191
Bank overdrafts	**(95)**	(227)	(73)
Cash and cash equivalents per cash flow	**244**	429	118
Long term cash on deposit	**25**	-	74
Interest and cross-currency swaps	**49**	21	43
Financial assets	**74**	21	117
Bonds	**-**	250	-
Other loans	**-**	-	(2)
Finance lease obligations	**(1)**	(2)	(2)
Current financial liabilities (excluding bank overdrafts)	**(1)**	(252)	(4)
Bonds	**(760)**	(745)	(758)
Other unsecured loans	**(14)**	(17)	(15)
Finance lease obligations	**(1)**	(2)	(1)
Non-current financial liabilities	**(775)**	(764)	(774)
Net debt	**(458)**	(566)	(543)

12 Post balance sheet and other events

Since the balance sheet date, the company has not purchased any shares as part of its share buyback programme.

The grocery sector continues to be under a close focus from the Office of Fair Trading, which has issued “Statements of Objection” in relation to conduct in the milk and tobacco categories in the early part of the millennium. The Group continues to defend its case in respect of both milk and tobacco and no provision has been recognised in the Group results.

Responsibility statement

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union;
- the Interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first 26 weeks of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining 26 weeks of the year; and
  - (b) DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first 26 weeks of the current financial year and that have materially affected the financial position or performance of the entity during that period and any changes in the related party transactions described in the last annual report that could do so.

By order of the Board

11 September 2008

<u>The Board</u>
The Board of Directors that served during the 26 weeks to 3 August 2008 and their respective responsibilities are:

Sir Ian Gibson – Chairman*
Marc Bolland – Chief Executive
Richard Pennycook – Group Finance Director
Mark Gunter – Group Store Operations Director
Martyn Jones – Group Trading Director
Roger Owen – Group Property Director
Brian Flanagan *
Paul Manduca *
Susan Murray *
Nigel Robertson *

* Non-Executive Director

Sir Ken Morrison retired from the Board on 13 March 2008.
Sir Ian Gibson joined the Board as Deputy Chairman in September 2007 and was appointed Chairman on 14 March 2008.

Accounting policies

Basis of preparation

This Half-yearly financial report 2008/09 is the condensed consolidated financial information of the Group for the 26 weeks ended 3 August 2008. It has been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Services Authority and the requirements of IAS 34 *Interim Financial Reporting* as adopted by the European Union.

The Half-yearly financial report 2008/09 was approved by the Board of Directors on 11 September 2008.

The Group previously prepared its Half-yearly financial reports on the basis of a 25 week first half. This year, the basis of preparation has been changed to a period of 26 weeks for the first half so that the Group's results are presented in two equal half years. Accordingly, the results presented are not directly comparable.

The Half-yearly financial report 2008/09 does not constitute financial statements as defined in section 240 of the Companies Act 1985 and does not include all of the information and disclosures required for full annual financial statements. It should be read in conjunction with the Annual report and financial statements for the 52 weeks ended 3 February 2008 which is available either on request from the company's registered office or to download from www.morrisons.co.uk.

The financial information contained in the Half-yearly report 2008/09 in respect of the 52 weeks ended 3 February 2008 has been extracted from the Annual report and financial statements 2008 which have been filed with the Registrar of Companies. The auditors report on these financial statements was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The half-yearly results for the current and comparative periods are unaudited.
The auditors have carried out a review of the Half-yearly financial report 2008/09 and their report is set out below.

New IFRS and amendments to IAS

The financial statements for the year ended 1 February 2009 are impacted by the following new standards and interpretations:
IFRIC 11 *IFRS2:Group and Treasury share transactions**, IFRIC 12 *Service Concession Arrangements*, IFRIC 13 *Customer loyalty programmes.*
The application of these standards and interpretations are not anticipated to have a material effect on the Group's financial statements except for additional disclosure.

IFRIC 14 *IAS19- The limit on a defined benefit asset, minimum funding requirements and their interaction.*
The Group's position on IFRIC14 is further explained in note 8.

*These standards are interpretations have been endorsed by the European Union.

Significant accounting policies

The condensed consolidated financial statements in this Half-yearly financial report 2008/09 for the 26 weeks ended 3 August 2008 have been prepared using accounting policies and methods of computation consistent with those set out in Wm Morrison Supermarkets PLC's Annual report and financial statements for the 52 weeks ended 3 February 2008.

In preparing the condensed consolidated financial statements, management are required to make accounting assumptions and estimates. The assumptions and estimation methods were consistent with those applied to the Annual report and financial statements for the 52 weeks ended 3 February 2008.

Principal risks and uncertainties

The principal risks and uncertainties set out in Wm Morrison Supermarkets PLC's Annual report and financial statements for the 52 weeks ended 3 February 2008 remain the same for the Half-yearly financial report 2008/09 and the remaining half year. Those risks and uncertainties can be summarised as follows:

Operational risks that may affect reputation, market share and financial results:
Business strategy – the risk that the strategy is not formulated properly or communicated to stakeholders effectively.
Product quality and safety – the risk that our standards of quality and safety are not maintained.
Regulation – the risk of non-compliance with regulations under which the Group operates.
Corporate Social Responsibility (CSR) – the risk of failure to meet our CSR commitments.
Business interruption – the risk of major interruption to our distribution network, manufacturing businesses or IT infrastructure.
Stores – the risk that the business fails to deliver an acceptable return on investment.
Systems and infrastructure – the risk that the IT systems do not provide the level of service, control and reporting that is required.

Financial risks that may affect financial results or the financial position of the company :
Foreign currency risk – the risk of adverse exchange rate fluctuations on foreign currency transactions.
Liquidity risk – the risk that funding is withdrawn from the business.
Credit risk – the risk that a counterparty fails to meet its financial obligations.

The Board do not consider the Credit Crunch to be a principal risk or uncertainty that would materially impact on the Group's performance.
The Board's view is that the Credit Crunch may reduce sales and profit. They are taking steps to reduce this impact through continually offering great value promotions to maintain sales growth plans and through constantly considering cost cutting initiatives.
The risk that one of our key suppliers is adversely affected by the credit crunch and cannot provide our stores is considered low as we have several means of supply for all products.
The Group's ability to borrow cash from our banks has not been affected as we have available committed competitive facilities already negotiated that will meet our needs in the medium term.

More information on the principal risks and how we mitigate those risks can be found on page 32 of the Annual report and financial statements 2008. You can view the Annual report and financial statements 2008 online on our corporate website, www.morrisons.co.uk/corporate/investors.

Independent review report to Wm Morrison Supermarkets PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the Half-yearly financial report 2008/09 for the 26 weeks ended 3 August 2008 which comprises the Condensed consolidated income statement, the Condensed consolidated balance sheet, the Condensed consolidated cash flow statement, the Condensed consolidated statement of recognised income and expense and the related explanatory notes, excluding the pro forma information. We have read the other information contained in the Half-yearly financial report 2008/09 and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Half-yearly financial report 2008/09 is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the Half-yearly financial report 2008/09 in accordance with the DTR of the UK FSA.

As disclosed in the basis of preparation, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in the Half-yearly financial report 2008/09 has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the Half-yearly financial report 2008/09 based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Half-yearly financial report 2008/09 for the 26 weeks ended 3 August 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the DTR of the UK FSA.

KPMG Audit Plc
Chartered Accountants
Leeds
11 September 2008

The following financial statements are for the 26 weeks to the half year 5 August 2007. These are presented to provide a comparable base with the 26 weeks to the half year 3 August 2008.

Condensed consolidated income statement

Pro forma 26 weeks ended 5 August 2007

	26 weeks ended 5 August 2007 £m
Turnover	**6,259**
Cost of sales	**(5,877)**
Gross profit	**382**
Other operating income	**17**
Administrative expenses	**(144)**
Profits arising on property transactions	**17**
Operating profit	**272**
Finance costs	**(25)**
Finance income	**27**
Profit before taxation	**274**
Taxation	**(44)**
Profit for the financial period attributable to equity holders of the parent	**230**

Underlying earnings	26 weeks ended 5 August 2007 £m
Profit after tax	**230**
Add back: tax charge for the year	**44**
Profit before tax	**274**
Adjustments for:	
Net pension interest income	**(8)**
Profits arising on property transactions	**(17)**
Underlying earnings before tax	**249**
Normalised tax charge at 32% tax rate	**(80)**
Underlying earnings after normalised tax charge	**169**

Condensed consolidated balance sheet

Pro forma to 5 August 2007

	5 August 2007 £m
Assets	
Non-current assets	
Property, plant and equipment	**6,104**
Lease prepayments	**227**
Investment property	**240**
Financial assets	**21**
	6,592
Current assets	
Stocks	**387**
Debtors	**160**
Cash and cash equivalents	**679**
	1,226
Non-current assets classified as held for sale	**4**
	1,230
Liabilities	
Current liabilities	
Creditors	**(1,647)**
Other financial liabilities	**(418)**
Current tax liabilities	**(135)**
	(2,200)
Non-current liabilities	
Other financial liabilities	**(764)**
Deferred tax liabilities	**(450)**
Pension liabilities	**(167)**
Provisions	**(151)**
	(1,532)
Net assets	**4,090**

Shareholders' equity	
Called up share capital	**268**
Share premium	**53**
Merger reserve	**2,578**
Retained earnings and other reserves	**1,191**
Total equity attributable to equity holders of the parent	**4,090**

Condensed consolidated cash flow statement

Pro forma 26 weeks ended 5 August 2007

	5 August 2007 £m
Cash flows from operating activities	
Cash generated from operations	**492**
Interest paid	**(15)**
Taxation paid	**(34)**
Net cash inflow from operating activities	**443**
Cash flows from investing activities	
Interest received	**20**
Proceeds from the sale of property, plant and equipment	**40**
Purchase of property, plant and equipment	**(141)**
Net cash outflow from investing activities	**(81)**
Cash flows from financing activities	
Proceeds from the issue of ordinary shares	**12**
Finance lease principal repayments	**(1)**
Repayment of borrowings	**(1)**
Dividends paid to equity shareholders	**(90)**
Net cash outflow from financing activities	**(80)**
Net increase in cash and cash equivalents	**282**
Cash and cash equivalents at start of period	**231**
Cash and cash equivalents at end of period	**513**

Reconciliation of net cash flow to movement in net debt in the period

	26 weeks ended 5 August 2007 £m
Net increase in cash and cash equivalents	**282**
Cash outflow from decrease in debt and lease financing	**2**
Other non cash movements	**6**
Opening net debt	**(772)**
Closing net debt	**(482)**